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No. 07-

IN THE

Supreme Court of the United States

IMPORT WAREHOUSE, INC. and RAVI BHATIA,

Petitioners,

v.

BOLLORÉ S.A., NORTH ATLANTIC TRADING COMPANY, INC. and NORTH ATLANTIC OPERATING COMPANY, INC.,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

The central aim of statutory damages authorized by Section 1117(c) of the Lanham Act is compensation and deterrence without creating a windfall for the plaintiff. Such damages "should be woven out of the same bolt of cloth as actual damages." Accordingly, all courts save one – the district court here – that have awarded statutory damages under the Lanham Act have entered awards that approximate a three to one ratio with actual damages.

The question presented is:

Whether the Fifth Circuit was incorrect in affirming the district court's award of $2 million in statutory damages under Section 1117(c) of the Lanham Act when the plaintiff suffered actual damages of only $3,288 in lost profits?

LIST OF PARTIES

Petitioners Import Warehouse, Inc., and Ravi Bhatia were the defendants in the district court and appellants in the court of appeals. Petitioner Ravi Bhatia is the sole owner of Petitioner Import Warehouse, Inc.

Respondents Bolloré S.A., North Atlantic Trading Company, Inc. and North Atlantic Operating Company, Inc. were the plaintiffs in the district court and appellees in the court of appeals.

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OPINIONS BELOW

The opinion of the United States Court of Appeals for the Fifth Circuit is unpublished. *See* Appendix A. The Fifth Circuit affirmed the unpublished opinion of the United States District Court for the Northern District of Texas awarding Respondents $2 million in statutory damages pursuant to 15 U.S.C. § 1117(c). *See* Appendix B.

STATEMENT OF JURISDICTION

The judgment of the United States Court of Appeals for the Fifth Circuit was entered on June 5, 2007. *See* Appendix A. A Petition for Rehearing was timely filed, and was denied on July 19, 2007. *See* Appendix E. Pursuant to Supreme Court Rule 13, this petition has been filed within 90 days of the denial of rehearing.

Petitioners invoke this Court's jurisdiction under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

Title 15 United States Code, Section 1117(a)-(c).

§ 1117. **Recovery for violation of rights**

(a) Profits; damages and costs; attorney fees

When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, a violation under section 1125(a) or (d) of this title, or a willful violation

under section 1125(c) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

(b) Treble damages for use of counterfeit mark

In assessing damages under subsection (a) of this section, the court shall, unless the court finds extenuating circumstances, enter

judgment for three times such profits or damages, whichever is greater, together with a reasonable attorney's fee, in the case of any violation of section 1114(1)(a) of this title or section 220506 of Title 36 that consists of intentionally using a mark or designation, knowing such mark or designation is a counterfeit mark (as defined in section 1116(d) of this title), in connection with the sale, offering for sale, or distribution of goods or services. In such cases, the court may in its discretion award prejudgment interest on such amount at an annual interest rate established under section 6621(a)(2) of Title 26, commencing on the date of the service of the claimant's pleadings setting forth the claim for such entry and ending on the date such entry is made, or for such shorter time as the court deems appropriate.

(c) Statutory damages for use of counterfeit marks

In a case involving the use of a counterfeit mark (as defined in section 1116(d) of this title) in connection with the sale, offering for sale, or distribution of goods or services, the plaintiff may elect, at any time before final judgment is rendered by the trial court, to recover, instead of actual damages and profits under subsection (a) of this section, an award of statutory damages for any such use in connection with the sale, offering for sale, or distribution of goods or services in the amount of—

(1) not less than $500 or more than $100,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just; or

(2) if the court finds that the use of the counterfeit mark was willful, not more than $1,000,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just.

STATEMENT OF THE CASE

1. *Parties.* Petitioner Ravi Bhatia owns Petitioner Import Warehouse, Inc. ("Import Warehouse"), which is a Dallas wholesale distributor for convenience stores. Import Warehouse sells everything that one might find at a convenience store other than food or drinks, such as Johnson & Johnson products, Tylenol, Bic lighters, etc.

Respondent Bolloré S.A. ("Bolloré") manufactures cigarette papers that bear the "Zig-Zag" trademarks. Respondent North Atlantic Operating Company, Inc. ("NAOC") is Bolloré's U.S. licensee and authorized distributor. Respondent North Atlantic Trading Company, Inc. ("NATC") employs sales personnel, and owns NAOC.

One product sold by Import Warehouse is cigarette rolling papers.

2. *Agreed Injunction.* In May 1999, Bolloré filed suit against 17 defendants, including Tarek Makki, Adham Mackie, and Joseph "Jihad" Makki ("the Makki

Defendants"). Bolloré claimed that the Makki Defendants obtained and distributed counterfeit Zig Zag cigarette papers, and certain gray market papers; Import Warehouse and Mr. Bhatia were also named as defendants.

Mr. Bhatia's involvement was due to certain gray market papers, which he could have disputed, but which he instead handed over to Bolloré, and entered into a blanket injunction (the "Agreed Injunction") rather than litigate the matter. *See* Appendix D.

Thereafter, he bought no cigarette papers of any kind from the Makki Defendants.

3. *Continued Litigation Against the Makki Defendants.* In contrast, litigation against the Makki Defendants proceeded. They were ultimately found to have engaged in a counterfeiting scheme, and the District Court awarded damages of $4.5 million against them.

4. *Purchases and Distribution of NAOC Product.* After entering into the Agreed Injunction, Import Warehouse was able to purchase cigarette papers directly from Bolloré's authorized distributor, NAOC, as well as from other authorized sources. It did so, purchasing specifically 382,750 boxes of "Orange" Zig-Zag papers, and 73,599 boxes of "White" Zig-Zag papers — millions of dollars worth of cigarette papers. Import Warehouse sold these papers to over 1,000 different customers.

5. *Motion for Contempt.* Nearly two years later, in February 2002, Bolloré filed a motion contending that Import Warehouse had violated the Agreed Injunction by purchasing and selling Makki counterfeit papers. Apparently, NATC sales managers found some Makki counterfeit product in the hands of a few small wholesalers and Bolloré concluded that Import Warehouse was the conduit, notwithstanding Import Warehouse's purchase of 382,750 boxes of wholly legitimate product during the same period of time.

6. *District Court Sanction.* Although Import Warehouse vigorously disputed Bolloré's accusations, the District Court ultimately determined that a few customers had received a relative handful of counterfeit product through Import Warehouse — a total of 274 boxes. *See* Appendix C. On appeal to the Fifth Circuit, Import Warehouse contested whether the evidence was clear and convincing that it did anything wrong at all. Rather than present the lengthy and detailed facts in that respect, Import Warehouse has elected to present here the issue of whether the sanction imposed was appropriate.

The value of the 274 boxes was $3,288; nonetheless, the District Court awarded $2 million in statutory damages. *See* Appendix B. This is a shocking award. As shown below, in comparable cases, courts have entered statutory awards in a ratio of three to one with the actual damages involved. Here, the district court's statutory award is over *six hundred* times the actual lost profits.

REASONS FOR GRANTING THE PETITION

The Fifth Circuit's Decision Is In Conflict With All Other Courts That Have Assessed Statutory Damages Under The Lanham Act

The fundamental question before the Court is whether a federal district court can award statutory damages under Section 1117(c) of the Lanham Act in an amount grossly disproportionate to — and far in excess of a trebling of — the actual damages shown by the evidence. The District Court awarded statutory damages pursuant to 15 U.S.C. § 1117(c). Bolloré elected to seek a statutory award rather than an award under Section 1117(b), which provides for trebling of actual damages. Obviously, trebling the actual damages in this case would have resulted in an award of less than $15,000. The question therefore is whether a plaintiff can obtain an award of statutory damages at a $2 million level when the statute would otherwise allow only a limited $15,000 award.

There is no indication that Congress ever intended such a result. To the contrary, courts reviewing Congressional intent conclude that Section 1117(c) provides for statutory damages as an alternative to actual damages under Section 1117(a) and trebling under Section 1117(b), and that the central aim under Section 1117(c) remains the same – compensation and deterrence without creating a windfall for the plaintiff. *See, e.g., Tommy Hilfiger Licensing, Inc. v. Goody & Family Clothing, Inc.*, No. 1:00-CV-1934-BBM, 2003 U.S. Dist. LEXIS 8788, at *71-76 (N.D. Ga. May 9, 2003) (discussing legislative intent). As one court put it, actual/treble damages and statutory awards should be

woven from the same bolt of cloth because they have the same underlying policies:

> **To the extent possible, statutory damages "should be woven out of the same bolt of cloth as actual damages."** *See* 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 14.04 [E] [1], at 14-69 (2003). **Under Section 35 of the Lanham Act, actual damages for a willful violation generally include three times the amount of the defendant's profits or the plaintiff's losses (whichever is greater), plus attorney's fees.** *See* 15 U.S.C. § 1117(b).

Gucci Am., Inc. v. Duty Free Apparel, 315 F. Supp. 2d 511, 520 (S.D.N.Y. 2004) (emphasis added).

It is therefore no surprise that, except in this case, courts across the country have entered statutory awards that follow a three-times-actuals rule. In *Gucci Am.*, the $2 million statutory award was roughly three times the $720,000 in actual damages. 315 F. Supp. at 515-17, 519-20 (see heading "DFA's Gucci Sales"), 521 (see paragraph beginning "First, the Court examines DFA's ill-gotten profits . . ."). In *Tommy Hilfiger*, the court awarded comparable statutory damages of $2.1 million, representing a rough trebling of the profits from the sale of counterfeit products — $688,995.19. 2003 U.S. Dist. LEXIS 8788, at *63, 76. Similarly, in *Altadis USA, Inc. v. Monte Cristi de Tabacos*, the court found $69,256.78 in lost profits from the sale of counterfeit products and awarded statutory damages of $250,000, "somewhat more than three times the defendant's demonstrated sales." No. 96 CIV 4209, 2001 U.S. Dist. LEXIS 6892, at *15-17 (S.D.N.Y. May 17, 2001).

In *Choice Hotels Int'l, Inc. v. Pennave Assoc.*, the court awarded $100,000 under Section 1117(c) after finding lost profits of $31,921. 159 F. Supp. 2d 780 (E.D. Pa. 2001). In *Sara Lee Corp. v. Bags of NY, Inc.*, a case involving willful infringement of five federally registered marks, the court estimated $250,000 in actual damages from the infringement and awarded statutory damages of $750,000. 36 F. Supp. 2d 161, 170 (S.D.N.Y. 1999). Consistently, the court in *Caesars World, Inc. v. Venus Lounge, Inc.*, refused to award statutory damages where no lost profits were found because "three times zero is zero." 520 F.2d 269 (3d Cir. 1973); *see also Elecs. Corp. of Am. v. Honeywell, Inc.*, 358 F. Supp. 1230 (D. Mass. 1973) (declining to award statutory damages in light of statute's compensatory intent and the absence of proof of lost profits).

In sum, the law is clear: a statutory award under Section 1117(c) should roughly follow a three-to-one-ratio with damages actually suffered by the plaintiff. There is no justification — and none was articulated by either the District Court or the Fifth Circuit — for Bolloré's windfall in this case. Accordingly, this Court should grant review and follow the well-reasoned authorities cited above.[1]

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[1] Despite Bolloré's arguments below, there is no basis for presuming that the District Court found more actual damages than it articulated. First, the District Court made a specific finding of only 274 boxes of counterfeit papers, accounting for lost profits of only $3,288. Second, while Bolloré implied that Petitioners failed to produce additional evidence in discovery, there was no motion or order to compel, or discovery sanction. Finally, Bolloré's argument that the sale of legitimate product could support the $2 million award is similarly meritless — even the District Court refused to accept the view that the purchase and sale of legitimate product could be taken as evidence of the opposite.

CONCLUSION

For the foregoing reasons, Petitioners respectfully request that the Supreme Court grant review of this matter.

Respectfully submitted,

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APPENDIX

APPENDIX A — PER CURIAM OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT FILED JUNE 5, 2007

UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

No. 04-10934

BOLLARÉ S.A.; NORTH ATLANTIC TRADING COMPANY; NORTH ATLANTIC OPERATING COMPANY,

Plaintiffs-Appellees,

versus

IMPORT WAREHOUSE INC; ET AL.,

Defendants,

IMPORT WAREHOUSE, INC.; RAVI BHATIA,

Defendants-Appellants.

Appeal from the United States District Court for the Northern District of Texas, Case No. 3:99-CV-1196-R.

Before JONES, Chief Judge, and BENAVIDES and STEWART, Circuit Judges.

Appendix A

PER CURIAM:*

The court has considered Appellants' position in light of oral argument, the briefs, and pertinent portions of the record. Having done so, we find no reversible error of fact or law and affirm for essentially the reasons stated by the district court.

AFFIRMED.

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* Pursuant to 5th Cir. R. 47.5, the court has determined that this opinion should not be published and is not precedent except under the limited circumstances set forth in 5th Cir. R. 47.5.4.

APPENDIX B — FINAL JUDGMENT FILED JULY 15, 2004 AND ORDER FILED JULY 1, 2004 OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS, DALLAS DIVISION

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

CIVIL ACTION NO. 3:99CV01196-R

BOLLORÉ, S.A., ET AL.,

Plaintiffs,

v.

IMPORT WAREHOUSE INC., ET AL.,

Defendants.

FINAL JUDGMENT

On June 27, 2003, the Court found Defendants Import Warehouse, Inc. and Ravi Bhatia in contempt of the Court's previous Agreed Final Judgment and Permanent Injunction (the "Injunction"). On July 1, 2004, the Court issued an order assessing Plaintiffs' damages incurred by virtue of the Defendants' actions.

Appendix B

It is hereby ORDERED, ADJUDGED and DECREED that:

(1) Plaintiffs requested and proved (a) statutory damages pursuant to 15 U.S.C. § 1117(c) in the amount of $2,000,000 for Defendants' willful contempt and infringement of Plaintiffs' two federally registered Zig-Zag® and Smoking Man Design® trademarks (the "Zig-Zag® Trademarks"); (b) reasonable attorneys' fees and costs in the amount of $435,608.78 and; (c) reasonable costs and expenses for investigative fees amounting to $40,491.14 incurred by Plaintiffs in uncovering Defendants' unlawful distribution of counterfeit merchandise. The Court therefore orders Defendants Import Warehouse, Inc. and Ravi Bhatia to pay Plaintiffs, jointly and severally, the sum of $2,476,099.92 in statutory damages, attorneys' fees, expenses and costs;

(2) Defendants shall recall from their customers all products that they have distributed or sold, in violation of the Injunction, bearing any counterfeit, copy, or substantially or confusingly similar image or designation of any of the Zig-Zag® Trademarks, on the product or on any package in which the product was distributed or sold;

(3) Defendants shall recall from their customers all cigarette paper products bearing the Zig-Zag® Trademarks that have been distributed or sold, in violation of the Injunction that are not designated for purchase or sale in the United States;

(4) Import Warehouse Defendants shall send a letter to each customer to whom they sold counterfeit and/or infringing Zig-Zag® cigarette paper products, informing each customer that the counterfeit and/or infringing Zig-Zag® cigarette paper products they ordered were not in fact manufactured or authorized by Plaintiffs, and were sold in violation of the Injunction; and

(5) A permanent injunction is hereby entered against Defendants, that they, their respective officers, directors, representatives, successors and assigns, and all those in active concert and in active participation with them, and anyone acting under their authority and control or in privity with them, or any of them, are perpetually enjoined from:

a. Directly or indirectly importing, manufacturing, selling, distributing, advertising, promoting, making or offering for sale any counterfeit, gray market or infringing Zig-Zag® cigarette paper products or any Zig-Zag® cigarette paper products not sold under the authority of Plaintiffs, or any packaging for same, containing infringing Zig-Zag® Trademarks or any colorable imitation thereof;

b. Selling or passing off or inducing or enabling others to sell or pass off, any of the Plaintiffs' products, or products not authorized by Plaintiffs, not produced, imported and distributed under the control or supervision of Plaintiffs, and approved for sale in the United States under the Zig-Zag® Trademarks;

c. Committing any acts calculated to cause purchasers to believe that counterfeit, gray market or infringing Zig-Zag® cigarette paper products are sold under the control and supervision of Plaintiffs, when they are not;

d. Diluting and infringing the Zig-Zag® Trademarks and damaging their good will;

e. Importing, shipping, delivering, distributing, returning or otherwise disposing of, in any manner, products or inventory not authorized by Plaintiffs to be sold, or offered for sale, in the United States and which bear infringing Zig-Zag® Trademarks;

f. Unfairly competing with Plaintiffs in any manner; and

g. Attempting, causing, or assisting any of the above-described acts, including, but not limited to, enabling others to conduct the counterfeiting scheme for them, or by passing along information to others to allow them to manufacture, distribute, sell or offer for sale counterfeit or gray market Zig-Zag® cigarette paper products.

This is a FINAL JUDGMENT.

SIGNED this 15 day of July, 2004.

s/ Jerry Buchmeyer
JERRY BUCHMEYER
UNITED STATES DISTRICT JUDGE

Appendix B

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

CIVIL ACTION NO. 3:99CV01196-R

BOLLORÉ, S.A., *et al.*,

Plaintiffs,

v.

IMPORT WAREHOUSE INC., *et al.*,

Defendants.

ORDER

CAME ON to be considered Plaintiffs' Bolloré, S.A. (Bolloré), North Atlantic Operating Company, Inc. ("NAOC") and North Atlantic Trading Company, Inc.'s ("NATC") (collectively "Plaintiffs") brief regarding contempt damages against Defendants Ravi Bhatia and Import Warehouse, Inc. (collectively the "Import Warehouse Defendants"), and upon consideration of the Brief, the exhibits presented, the preceding filings, the response, and the arguments of counsel, the Court finds and concludes as follows:

1. Plaintiffs have demonstrated the effectiveness of the Agreed Final Judgment and Permanent Injunction

(the "Injunction") issued on April 7, 2002 against the Import Warehouse Defendants.

2. Pursuant to the Injunction, the Import Warehouse Defendants are enjoined from, *inter alia*, purchasing, selling or distributing any infringing cigarette paper product bearing Bolloré's Zig-Zag® or Smoking Man Design® trademarks (collectively the Zig-Zag® Trademarks").

3. Plaintiffs have established the Import Warehouse Defendants' failure to comply with the Injunction based on the Import Warehouse Defendants' continued purchase, sale and distribution of counterfeit cigarette paper products bearing the Zig-Zag® Trademarks.

4. Bolloré is entitled to recover damages reflecting (i) statutory damages as a result of the Import Warehouse Defendants' willful contempt and infringement of Plaintiffs' Zig-Zag® Trademarks; (ii) the reasonable costs and attorneys' fees expended in bringing the contempt action against the Import Warehouse Defendants; and (iii) the reasonable investigation costs incurred in investigating the Import Warehouse Defendants' counterfeiting operations.

Contempt

IT IS THEREFORE ORDERED that the Import Warehouse Defendants, their agents, officers, employees, representatives, successors and assigns, and all other persons, firms or corporations acting in concert,

privity or participation with them are in contempt of this Court's Injunction.

IT IS FURTHER ORDERED that the Import Warehouse Defendants pay $2,000,000.00 in statutory damages to Plaintiffs pursuant to 15 U.S.C. § 1117(c) for the Import Warehouse Defendants' willful contempt and infringement of Plaintiffs' stylized Zig-Zag® and Smoking Man Design® trademarks (*i.e.*, $1,000,000.00 per trademark).

IT IS FURTHER ORDERED that the Import Warehouse Defendants pay $435,608.78 to Plaintiffs as reasonable costs and attorneys' fees incurred in bringing the contempt proceeding.

IT IS FURTHER ORDERED that the Import Warehouse Defendants pay $40,491.14 to Plaintiffs in reasonable investigative fees incurred in investigating the Import Warehouse Defendants' counterfeiting operations.

IT IS FURTHER ORDERED that:

1. Within fifteen (15) days of entry of this Order, the Import Warehouse Defendants shall recall from their customers all products that they have distributed or sold, in violation of the Injunction, bearing any counterfeit, copy, or substantially or confusingly similar image or designation of any of the Zig-Zag® Trademarks, on the product or on any package in which the product was distributed or sold;

2. Within fifteen (15) days of entry of this Order, the Import Warehouse Defendants shall recall from their customers all cigarette paper products bearing the Zig-Zag® Trademarks that have been distributed or sold, in violation of the Injunction that are not designated for purchase or sale in the United States; and

3. Within fifteen (15) days of entry of this Order, the Import Warehouse Defendants shall send a letter to each customer to whom they sold counterfeit and/or infringing Zig-Zag® cigarette paper products, informing each customer that the counterfeit and/or infringing Zig-Zag® cigarette paper products they ordered were not in fact manufactured or authorized by Plaintiffs, and were sold in violation of the Injunction.

IT IS FURTHER ORDERED that within fifteen (15) days after entry of this Order, the Import Warehouse Defendants shall file with the Court and serve on Plaintiffs' counsel a written statement of all steps taken to comply with this Order.

IT IS FURTHER ORDERED that the Import Warehouse Defendants shall pay a fine of $5,000 per day for each day of non-compliance with this Order.

ENTERED AND ORDERED THIS 1 day of July, 2004 at 8:30 o'clock a.m.

s/ Jerry Buchmeyer
JERRY BUCHMEYER
UNITED STATES DISTRICT JUDGE

APPENDIX C — FINDINGS OF FACT AND CONCLUSIONS OF LAW OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS, DALLAS DIVISION FILED JUNE 27, 2003

IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS DALLAS DIVISION

CIVIL ACTION NO. 3:99-CV-1196-R

BOLLORÉ, S.A., *et al.*,

Plaintiff,

v.

IMPORT WAREHOUSE, INC., *et al.*,

Defendants.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

Now before this Court is Bolloré, S.A. ("Bolloré"), North Atlantic Operating Company, and North Atlantic Trading Company's (collectively, "Plaintiffs") Motion for Contempt Against Ravi Bhatia and Import Warehouse, Inc. ("Defendants") (filed February 7, 2002). Plaintiffs allege that Defendants should be held in contempt of this Court's Agreed Final Judgment and Permanent Injunction (entered April 7, 2000) (the "Injunction"). On April 10, 2002, this Court held a contempt hearing in this matter (the "First Hearing"). Subsequently, this Court granted a motion to reopen the contempt hearing,

and two additional contempt hearings were held, on August 1, 2002, and January 22, 2003 (respectively, the "Second Hearing" and the "Third Hearing").

Pursuant to Rule 52(a) of the Federal Rules of Civil Procedure, this Court makes the following findings of fact and conclusions of law:

I. FINDINGS OF FACT

A. Background

1. Bolloré is a French corporation which, *inter alia*, manufactures and sells cigarette papers under the "Zig-Zag" brand name. Among the products sold by Plaintiff under the Zig-Zag brand name are Zig-Zag Orange ("Orange") and Zig-Zag White ("White") cigarette papers.

2. Bolloré owns registered trademarks relating to its Zig-Zag line of cigarette papers.

3. North Atlantic Operating Company ("NAOC") and National Tobacco Company ("NTC") are subsidiaries of North Atlantic Trading Company ("NATC").

4. NAOC has an exclusive license from Bolloré to import and distribute Zig-Zag cigarette papers within the United States.

5. Both Orange and White are packaged into cases for sale. Each case contains 25 boxes (also called cartons). Each box in turn contains 24 booklets of cigarette papers.

6. Defendant Ravi Bhatia ("Bhatia") is the president and owner of Ravi's Import Warehouse, Inc. (d/b/a Import Warehouse, Inc.) ("Import Warehouse"), which is a wholesaler of a wide variety of products including Orange and White. Import Warehouse is located at 1311 Harry Hines Boulevard in Dallas, Texas.

7. Under the terms of the Injunction, Defendants were permanently enjoined from, *inter alia*, selling, attempting to sell or assisting others to sell as Bollorè products, products which were not Bolloré's or not imported or distributed under the control of Bolloré or NAOC; diluting any Zig-Zag trademarks; and, importing or distributing any products bearing Zig-Zag trademarks which were not authorized by Bolloré for sale in the U.S.[1] Bhatia and Import Warehouse are each signatories to the Injunction.

B. Alleged Violations of the Injunction

International Foods

8. On April 12, 2002, Tim Fournier ("Fournier"), a regional sales manager for NTC, and one of his colleagues, Alan Newman ("Newman"), visited

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1. *Injunction*, at 3. The relevant provisions of the Injunction are excerpted *infra* at Conclusions of Law, ¶7.

International Foods, located at 3940 Barron Street in Metairie, Louisiana.

9. At International Foods, Fournier and Newman spoke with Mihir Shah. Mihir Shah and his cousin, Hiren Shah, are both employees of International Foods.

10. After receiving permission from Mihir Shah, Fournier examined the inventory of Zig-Zag products at International Foods and found an open case of Orange which contained eight boxes of counterfeit Orange and eight boxes of legitimate Orange. Behind this case, Fournier found an unopened case of Orange which was entirely counterfeit.

11. Upon learning that Fournier had discovered counterfeit product, Mihir Shah phoned his cousin, Hiren Shah.

12. In response to Fournier's inquiry regarding the source of the counterfeit Orange, Mihir Shah gave Fournier an invoice from Import Warehouse. The invoice, dated March 21, 2002, lists, among other items, the purchase of 500 boxes (equal to 25 cases) of Orange from Import Warehouse by International Foods.[2]

13. Mihir Shah stated to Fournier that the invoice reflected the then current inventory of Orange held by International Foods.

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2. *Plaintiff's Ex 32.*

Appendix C

14. During the Second Hearing, Fournier testified to the facts relating to his visit to International Foods. This Court finds the testimony of Fournier regarding his visit to International Foods to be highly credible.

15. Fournier has also submitted a sworn declaration (dated May 17, 2002) which recounts, in less detail, his visit to International Foods.[3] This Court does not find Defendants' attempts to point out inconsistencies between Fournier's declaration and his live testimony to be of significant evidentiary value or to lessen the credibility of Fournier's in-court testimony.

16. During his video-taped deposition, Hiren Shah, stated that he directed Mihir Shah, to give the Import Warehouse invoice to Fournier, as this was the most recent invoice reflecting the current inventory of Orange. Hiren Shah also stated that he told Fournier that the counterfeit Orange was from Import Warehouse.

17. Shortly after Fournier and Newman left International Foods, Mihir Shah telephoned Bhatia. During the Second Hearing, Bhatia testified regarding this phone call. He stated that Mihir Shah recounted to him that counterfeit product had been found by Fournier, that Mihir Shah had given Fournier the Import Warehouse invoice, and that Mihir Shah did not mention a return or jobber as a possible alternate source of the counterfeit Orange. Upon further questioning, Bhatia stated that he did not know why Mihir Shah telephoned

3. *Defendant's Ex 10.*

him immediately after Fournier left International Foods. Bhatia also denied selling International Foods any counterfeit Zig-Zag products.

18. This Court finds Bhatia's denial of Import Warehouse's sale of counterfeit goods to International Foods to not be credible. Bhatia's testimony is discredited to the extent it conflicts with the live testimony and physical evidence introduced by Fournier.

19. This Court also discounts any statements made by Hiren Shah in his deposition regarding other possible sources for the counterfeit Orange product – i.e. a jobber or a return. Such statements are inconsistent with the in-court testimony of Fournier and other statements made by Hiren Shah in his deposition.

20. This Court finds, by clear and convincing evidence, that Import Warehouse had sold the counterfeit Zig-Zag product discovered by Fournier during his visit to International Foods.

International Foods Retail

21. After leaving International Foods, Fournier visited an International Foods retail store ("International Foods Retail") located on Georgia Street in Kenner, Louisiana. At International Foods Retail, Fournier discovered eleven boxes and twelve booklets of counterfeit Orange.

22. Although International Foods Retail appears to be part of a network of family businesses which includes International Foods, International Foods Retail did not source its goods exclusively from International Foods.

23. Plaintiffs have not produced an invoice, or other documentary evidence, directly linking the counterfeit Orange found at International Foods Retail to Defendants.

24. This Court finds the evidence suggesting a link between the counterfeit Orange found at International Foods Retail and Defendants to be insufficient to meet the clear and convincing standard required in this civil contempt proceeding.

A&D Enterprises

25. On August 31, 2001, Casey Cooper ("Cooper"), director of national accounts for NTC, and Tom Houston, an investigator working for Plaintiffs, visited A&D Enterprises ("A&D"), a wholesaler located in Columbus, Ohio.

26. After receiving permission from the owner of A&D, Diab Ellan ("Ellan"), to examine A&D's inventory of Zig-Zag products, Cooper discovered 16 boxes of counterfeit White.

27. Cooper then checked the inventory in the back portion of A&D and located a pallet on which were three

cases of counterfeit White. The pallet was partially enclosed by shrink wrap, and affixed to the shrink wrap was a shipping label from Import Warehouse to A&D.[4]

28. Ellan gave Cooper copies of invoices relating to A&D's recent purchases from Import Warehouse.

29. Subsequently, on or about January 18, 2002, Cooper again visited A&D in order to request that Ellan sign a declaration regarding Cooper's prior visit to A&D and the counterfeit White found at that time. Ellan signed the declaration.[5]

30. This Court finds Cooper's testimony during the first hearing regarding his visits to A&D to be highly credible.

31. During the First Hearing, Ellan testified regarding Cooper's visits to A&D. Ellan testified that he did not know that the declaration was a legal document and he had not read it prior to signing it; instead, he claimed to have signed it because he knows and trusts Cooper.

32. Ellan also testified that the counterfeit White found by Cooper was "on the pallet or next to the pallet" and that it was from "Ravi [Bhatia] or others." Ellan further stated that he was "not sure" as to the source of

4. *Plaintiff's Ex 13*, at 3.

5. *Plaintiff's Ex 17.*

the counterfeit White, and offered up various possible theories for why the source was not Defendants, including other wholesalers such as Abassi Wholesale or a return from Ahmad Niqrish.

33. This Court finds Ellan's testimony regarding his failure to read the declaration and other possible sources of the counterfeit White found at A&D to be of low credibility. This Court discredits Ellan's testimony to the extent it differs from that of Cooper.

34. This Court also discredits the denials made by Bhatia, during both the First and Second Hearings, regarding the sale by Import Warehouse of the counterfeit White found at A&D.

35. This Court finds, by clear and convincing evidence, that Import Warehouse sold the counterfeit Zig-Zag product discovered by Cooper during his visit to A&D.

Star Wholesale

36. In early October 2001, Clark Sturdivant ("Sturdivant"), a regional manager for NTC, and a colleague, Michael Leroy ("Leroy"), visited Star Wholesale located on Marvin Drive in Houston, Texas.

37. After introducing themselves to Tony Ali ("Ali"), the principal of Star Wholesale, Sturdivant and Leroy proceeded to conduct a check of Star Wholesale's inventory of Zig-Zag products. Upon examining the

inventory, Sturdivant discovered approximately six cases of counterfeit White. Sturdivant and Leroy then exchanged a case of legitimate White which they had brought with them for one of the cases of counterfeit White and instructed Ali to segregate the other five cases of counterfeit product from the rest of his inventory.

38. Ali gave Sturdivant copies of invoices detailing sales of White by Import Warehouse to Star Wholesale.

39. Subsequently, Leroy again visited Star Wholesale in order to pick up the other five cases of counterfeit White. When he returned to Star Wholesale, he observed someone switching legitimate product for the counterfeit White, and was unable to obtain the five additional cases of counterfeit White. Instead, he was twice asked to leave, and did so. When he returned several hours later, the product had been switched and rather than the five cases of counterfeit White, he was given five cases of legitimate White.

40. Ali, in his deposition, stated that he told Sturdivant that the counterfeit White found at Star Wholesale was from Import Warehouse. Ali stated that he believed the counterfeit White was most likely from an invoice from Import Warehouse dated September 12, 2001. Ali also stated that he spoke to Bhatia about the counterfeit White, and that Bhatia denied that the goods were counterfeit. Bhatia did not, however, deny that he sold Ali the goods.

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41. Bhatia, during the First Hearing, testified that he had spoken with Ali about the counterfeit White found at Star Wholesale. Bhatia denied that Import Wholesale had sold counterfeit White to Star Wholesale, stating that either the product was not counterfeit or it had not been sold by Import Warehouse.

42. This Court finds the testimony of Sturdivant and Leroy regarding their visits to Star Wholesale to be highly credible.

43. This Court finds the testimony of Bhatia denying that Import Warehouse is the source of the counterfeit White found at Star Wholesale to not be credible, and it is discredited to the extent it conflicts with these findings.

44. This Court finds, by clear and convincing evidence, that Import Warehouse had sold the counterfeit Zig-Zag product discovered by Sturdivant and Leroy during their visit to Star Wholesale.

Texas Wholesale

45. In late September 2001, Sturdivant, accompanied by a colleague, Mark Spivey ("Spivey"), visited Texas Wholesale, a wholesaler located at 11409 Denton Drive in Dallas, Texas.

46. While examining the inventory of Texas Wholesale, Sturdivant and Spivey found and purchased a case of counterfeit Orange.

47. Based on a conversation with Mohammed H. Wazirali ("Wazirali"), the vice-president of Texas Wholesale, Sturdivant concluded that the counterfeit Orange had been purchased by Texas Wholesale from Starco Impex (a/k/a Wholesale Outlet), a wholesaler located in Beaumont, Texas.

48. Wazirali, during his deposition, stated that the counterfeit product which Sturdivant found had been purchased from Starco Impex.

49. The president of Starco Impex, Muhamed Tahir Javed ("Javed"), submitted an affidavit to this Court wherein he states that the counterfeit product which he sold to Texas Wholesale had been purchased from Import Warehouse.

50. This Court finds the testimony of Sturdivant regarding his visit to Texas Wholesale to be credible. However, the evidence, specifically linking Import Warehouse to Starco Impex consists of documents provided by individuals, Wazirali and Javed, whose credibility this Court has not been able to judge through live testimony.

51. Therefore, this Court finds that Plaintiffs have failed to establish by clear and convincing evidence that Defendants sold or distributed the counterfeit Zig-Zag product found at Texas Wholesale.

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Buyer's Wholesale

52. During the First Hearing, Cooper also testified that, on several occasions, he had visited Buyer's Wholesale, located in Indianapolis, Indiana.

53. While on one of his visits to Buyer's Wholesale, Cooper discovered ten cases of counterfeit Orange. On the top of the box containing the ten cases of counterfeit Orange was a shipping label showing that the product had originated at J&S Distributors in Louisville, Kentucky.

54. The president of Starco Impex, Muhamed Tahir Javed ("Javed"), submitted an affidavit to this Court wherein he states that the counterfeit product which he sold to J&S had been purchased from Import Warehouse. In addition, Jeff Guernsey, the owner of J&S Distributors, was deposed by Plaintiffs.

55. Although this Court views the testimony of Cooper regarding his visits to Buyer's Wholesale as credible, it is of the opinion that the evidence linking Import Warehouse to the counterfeit product found at Texas Wholesale, like that discussed *supra* for Texas Wholesale, is rather attenuated.

56. Therefore, this Court finds that Plaintiffs have failed to establish by clear and convincing evidence that Defendants sold or distributed the counterfeit Zig-Zag product found at Buyer's Wholesale.

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S.A. Discount

57. On April 10, 2002, Tony Yensen ("Yensen"), at that time a regional manager of NTC, visited S.A. Discount, a wholesaler located in Berlin, Connecticut. While at S.A. Discount, Yensen spoke with Adnan Kashi ("Kashi"), an employee of S.A. Discount.

58. At S.A. Discount, Yensen discovered a box of gray market White. This box of "Syrian" White was manufactured and authorized for sale in Syria; its import into the United States had not been authorized by Bolloré, NAOC, or NATC.

59. After he inquired regarding the source of the Syrian White, Yensen was given an invoice from Import Warehouse dated February 21, 2002.[6]

60. Subsequently, Mark Roussell ("Roussell"), a private investigator hired by Plaintiffs, and John Bosco, a colleague of Roussell's who speaks Hindi, again visited S.A. Discount in order to obtain a signed declaration regarding the Syrian White. Mohammad Aslam ("Aslam"), who is the owner of S.A. Discount and Kashi's brother, signed the declaration. In addition, Aslam's daughter (Aqsa Aslam) and both investigators also signed the declaration.[7]

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6. *Plaintiffs' Ex 37*

7. *Plaintiffs' Ex 36.*

61. This Court finds the testimony of Yensen and Roussell at the Second Hearing regarding their visits to S.A. Discount to be highly credible.

62. At the Second Hearing the parties were granted leave to conduct additional depositions. After the Second Hearing, both Kashi and Aslam were deposed.

63. In his deposition, Kashi stated that the box of Syrian White was from a shipment from Import Warehouse which had been received a few days prior to Yensen's visit. Aslam, in his deposition, stated that he signed the declaration because Kashi had told him "everything" about Yensen's visit. Aslam also stated that his daughter had read the declaration to him before he signed it. Aslam further stated that he told Bhatia by phone that Import Warehouse had sold S.A. Discount the unauthorized Syrian White.

64. Bhatia testified that he believes Aslam lied in his declaration, and that he does not know why Aslam would make such statements.

65. This Court finds Bhatia's statements regarding the Syrian White found at S.A. Discount to be wholly without credibility.

C. Other Evidence

66. James Babbish ("Babbish"), a private investigator hired by Plaintiffs, testified during the First Hearing regarding a meeting he had with Adham Makki and Tarek Makki on April 4, 2002.

67. While the Court finds Babbish a reasonably credible witness, it does not view either Adham Makki or Tarek Makki to be credible sources. Therefore, this Court finds that testimony regarding statements allegedly made by either Adham or Tarek Makki lacks significant evidentiary value in this proceeding.

68. This Court finds the summaries of purchases and sales invoices produced by Defendants, and the testimony offered by Bhatia pertaining thereto, inconclusive and unpersuasive as such summaries were prepared for the purposes of this litigation and do not include actual invoices or contain other guarantees of their comprehensiveness or accuracy.

69. If any of the foregoing Findings of Fact may be more properly deemed Conclusions of Law, they are hereby incorporated by reference into the Conclusions of Law.

II. CONCLUSIONS OF LAW

1. Federal courts "possess the inherent authority to enforce their own injunctive decrees." *Travelhost, Inc. v. Blandford*, 68 F.3d 958, 961 (5th Cir. 1995) (citing *Waffenschmidt v. MacKay*, 763 F.2d 711, 716 (5th Cir. 1985)).

2. A party commits contempt when he violates a definite and specific order of the court requiring him to perform or refrain from performing a particular act or acts with knowledge of the court's order." *Travelhost,*

68 F.3d at 961 (citing *SEC v. First Financial Group of Tx., Inc.*, 659 F.2d 660, 669 (5th Cir. 1981)). Plaintiffs seek to hold Defendants in civil contempt for violation of the Injunction.

3. In order to prevail in this civil contempt proceeding, Plaintiffs must satisfy a three part test. Plaintiffs must establish: "by clear and convincing evidence: 1) that a court order was in effect, 2) that the order required certain conduct by the respondent, and 3) that the respondent failed to comply with the court's order." *American Airlines, Inc. v. Allied Pilots Assoc.*, 228 F.3d 574, 581 (5th Cir. 2000) (quoting *Petroleas Mexicanos v. Crawford Enterprises, Inc.*, 826 F.2d 392, 401 (5th Cir. 1987)).

4. Clear and convincing evidence, in a contempt proceeding, is evidence which "produces in the mind of the trier of fact a firm belief or conviction as to the truth of the allegations sought to be established, evidence so clear, direct and weighty and convincing as to enable the fact finder to come to a clear conviction, without hesitancy, of the truth of the precise facts" at issue. *Travelhost*, 68 F.3d at 961 (quoting *Cruzan by Cruzan v. Director, Missouri Dept. of Health*, 497 U.S. 261, 285 n. 11 (1990)). The weight of evidence required is "higher than the 'preponderance of the evidence' standard, common in civil cases, but not as high as 'beyond reasonable doubt.'" Travelhost, 68 F.3d at 961 (citing *U.S. v. Rizzo*, 539 F.2d 458, 465 (5th Cir. 1976)).

5. This Court entered the Injunction on April 7, 2000, and it has remained in full force and effect since that date. Therefore, Plaintiffs have satisfied the first prong of the three part test by clear and convincing evidence.

6. Both Bhatia and Import Warehouse were signatories to the Injunction. Hence there is no issue of lack of notice or failure to be bound by the terms of the Injunction. Defendants have also not raised the defense of inability to comply with the terms of the Injunction.

7. The Injunction, in relevant part, permanently enjoined Defendants from:

> Selling or passing off or inducing or enabling others to sell or pass off, as and for any of Bolloré's products, or as and for products produced by Bolloré, any product not Bolloré's, or not produced, imported or distributed under the control or supervision of Bolloré and/or its U.S. distributor, North Atlantic Operating Company, Inc. ("NAOC"), and approved for sale under Bolloré's ZIG-ZAG Trademarks, copyrighted Designs, or any of them, by Bolloré; . . .
>
> Diluting and infringing the ZIG-ZAG Trademarks, or any of them, and damaging their good will; . . .

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> Importing, shipping, delivering, distributing, returning or otherwise disposing of, in any other manner, products or inventory not authorized by Bolloré to be sold, or offered for sale, in the U.S. and which bear the ZIG-ZAG Trademarks, copyrighted Designs, or any of them; . . . [and]
>
> Attempting causing or assisting any of the above-described acts.[8]

8. The Injunction speaks with precision regarding the types of conduct which are barred. Defendants were required to refrain from certain conduct, which included selling or assisting others to sell products which were not authorized by Bolloré as if such products were so authorized. Thus, the Injunction, by clear and convincing evidence, satisfies the second prong of the three-part test.

9. Plaintiffs have also satisfied the final part of the three part test, namely, establishing by clear and convincing evidence that Defendants have failed to comply with the terms of the Injunction, with respect to the counterfeit Bolloré Zig-Zag products discovered at the following three entities: International Foods, A&D Enterprises, and Star Wholesale.

10. This Court finds that Plaintiffs have acted willfully in violating the Injunction with respect to

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8. *Injunction*, at 3 (terms capitalized in the original).

International Foods, A&D Enterprises, and Star Wholesale.

11. After considering the voluminous hearing and documentary evidence adduced in this proceeding, this Court holds:

(a) Defendants in contempt of the Injunction for the sale of counterfeit Bolloré Zig-Zag products to International Foods. *See Findings of Fact*, ¶¶ 8-20;

(b) Defendants in contempt of the Injunction for the sale of counterfeit Bolloré Zig-Zag products to A&D Enterprises. *See Findings of Fact*, ¶¶ 25-35; and

(c) Defendants in contempt of the Injunction for the sale of counterfeit Bolloré Zig-Zag products to Star Wholesale. *See Findings of Fact*, ¶¶ 36-44.

12. Plaintiffs have failed to establish by clear and convincing evidence that Defendants have violated the Injunction with respect to International Foods Retail, Texas Wholesale, and Buyer's Wholesale. *See Findings of Fact*, ¶¶ 21-24, 45-56.

13. This Court rejects Defendants' objections over the admissibility of certain evidence in this proceeding. The Court considered Defendants' evidentiary objections at each point they were raised during the three contempt hearings and sees no need to revisit any

of its prior evidentiary rulings. The Court does note, however, that Plaintiff has met its burden of establishing contempt with respect to International Foods, A&D Enterprises, and Star Wholesale *irrespective of* the admissibility of any alleged hearsay evidence.

14. After citing a party for civil contempt, a federal district court has broad latitude to determine an appropriate remedy. "The sanctions imposed after a finding of civil contempt serve two functions: to coerce future compliance and to remedy past noncompliance." *Vuitton et Fils S.A. v. Carousel Handbags*, 592 F.2d 126, 130 (2d Cir. 1979) (citing *U.S. v. United Mine Workers*, 330 U.S. 258, 302-04 (1947) and *Sunbeam Corp. v. Golden Rule Appliance Co.*, 252 F.2d 467 (2d Cir. 1958)). *See also Whittaker Corp. v. Execuair Corp*, 953 F.2d 510, 517 (9th Cir. 1992).

15. Plaintiffs are entitled to profits lost due to Defendants contumacious conduct and to reasonable attorney's fees and expenses incurred in this contempt proceeding. By separate Order, this Court shall specify a briefing schedule to allow the parties to be heard on the issue of calculation of damages.

16. If any of the foregoing Conclusions of Law may be more properly deemed Findings of Fact, they are hereby incorporated by reference into the Findings of Fact.

Appendix C

III. CONCLUSION

Based on the foregoing Findings of Fact and Conclusions of Law, Plaintiffs Motion for Contempt Against Ravi Bhatia and Import Warehouse, Inc. is hereby **GRANTED**. Defendants are hereby held in contempt of this Court's Agreed Judgment and Final Injunction of April 7, 2000. After briefing by the Parties, Damages shall be assessed by separate Order of this Court.

It is so **ORDERED.**

Signed: June 27, 2003.

s/ Jerry Buchmeyer
JUDGE JERRY BUCHMEYER
UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS

APPENDIX D — AGREED FINAL JUDGMENT AND PERMANENT INJUNCTION OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS, DALLAS DIVISION FILED APRIL 6, 2000

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

CIVIL ACTION NO.:
3-99CV 1196-R

BOLLORÉ, S.A.,

Plaintiff,

v.

IMPORT WAREHOUSE INC., RAVI BHATIA, ABOX PAPERBOARD COMPANY, INC., LEWIS ARMSTRONG, WILLIAM R. ARMSTRONG, DOROTHY J. ARMSTRONG, VICKIE ARMSTRONG, JOSEPH "JIHAD" MAKKI, ADHAM MAKKI, TAREK MAKKI, ZEINA HAMED, BEST PRICE WHOLESALE, CIGAR-CIGARETTE, INC., COFFEE ACCESSORIES AND MORE, INC., DREAM DEALS, INC., IMPEX, INC. and SOCIÉTÉ PIPIERE DE PARIS,

Defendants.

Appendix D

AGREED FINAL JUDGMENT AND PERMANENT INJUNCTION

This matter having come before the Court and it being represented that plaintiff Bolloré S.A. and defendants Import Warehouse Inc. and its president and owner Ravi Bhatia (collectively "*Import Warehouse*"), Abox Paperboard Company, Inc. and its current and former officers, Lewis Armstrong, Dorothy J. Armstrong, William R. Armstrong, and Vickie Armstrong (collectively "*Abox*") (Import Warehouse and Abox are collectively referred to herein as "*Defendants*") have reached final agreement on settlement of the claims made in this action (the "*Action*") and on the consent of the parties, the Court hereby ORDERS, ADJUDGES AND DECREES as follows:

WHEREAS, Bolloré commenced this Action and moved *ex parte* against various defendants including Defendants under Federal Rules of Civil Procedure 64 and 65, the Lanham Act, 15 U.S.C., § 1051, et seq., the copyright laws of the United States, 17 U.S.C. §§ 101, et seq., (the "*Copyright Act*") and the laws of the State of Texas for the reason that Defendants appeared to Bolloré to be importing, distributing, promoting, offering to sell, and/or selling cigarette paper booklets (namely the "*Spanish Booklets,*" "*Classic Booklets,*" "*Blue Booklets,*" "*75 Hojas Booklets,*" "*Red Booklets,*" and "*Long Booklets*") bearing Bolloré's copyrighted designs (the "*Designs*") and Bolloré's registered ZIG-ZAG® and "Smoking Man Design"® trademarks (the "ZIG-ZAG *Trademarks*") without Bolloré's authorization and for

the reason that Defendants appeared to Bolloré to be manufacturing, importing, reproducing, copying, distributing, offering for sale, and/or selling, cartons bearing counterfeits of the ZIG-ZAG Trademarks;

WHEREAS, on May 25, 1999, this Court entered *ex parte* a Temporary Restraining Order, Seizure and Impoundment Order, Order Expediting Discovery, Order Sealing the File, Order Setting Bond and Order Setting Preliminary Injunction Hearing;

WHEREAS, on June 8 and 9, 1999, pursuant to this Court's *ex parte* Seizure and Impoundment Order, U.S. Marshals, accompanied by Bolloré's attorneys, seized materials alleged to be infringing and equipment and documents related thereto, at the locations indicated in the Order;

WHEREAS, on June 15, 1999, Abox consented to the entry of a preliminary injunction;

WHEREAS, on June 28, 1999, Abox filed an Original Answer to the Action denying liability to Bolloré and asserting affirmative defenses and cross-claims;

WHEREAS, on July 7, 1999, Import Warehouse filed an Answer and counterclaim in the Action;

WHEREAS, on August 3, 1999, Import Warehouse consented to the entry of a preliminary injunction; and

Appendix D

WHEREAS, Bolloré and Defendants wish to settle the Action and claims related thereto as between them without further litigation and have entered into a Stipulation and Agreement of Settlement dated as of March 1, 2000.

PERMANENT INJUNCTION

1. Defendants, their affiliates, subsidiaries, parents and their respective officers, agents, servants and employees, and all persons in active concert or participation with them shall cease and desist, and refrain in the future from, anywhere in the world:

a. Using in any manner as to be likely to cause confusion, deception or mistake in the consuming public the ZIG-ZAG Trademarks, Designs, or any of them, alone or in combination with any word or words, design or designs, which shall resemble each said trademark and/or designs;

b. Selling or passing off or inducing or enabling others to sell or pass off, as and for any of Bolloré's products, or as and for products produced by Bolloré, any product not Bolloré's, or not produced, imported and distributed under the control or supervision of Bolloré and/or its U.S. distributor, North Atlantic Operating Company, Inc. ("NAOC"), and approved for sale under Bolloré's ZIG-ZAG Trademarks, copyrighted Designs, or any of them, by Bolloré;

c. Committing any acts calculated to cause purchasers to believe that infringing and/or counterfeit products are sold under the control and supervision of, Bolloré and/or NAOC;

d. Diluting and infringing the ZIG-ZAG Trademarks, or any of them, and damaging their good will;

e. Otherwise competing unfairly with Bolloré or NAOC in any manner;

f. Importing, shipping, delivering, distributing, returning or otherwise disposing of, in any manner, products or inventory not authorized by Bolloré to be sold, or offered for sale, in the U.S. and which bear the ZIG-ZAG Trademarks, copyrighted Designs, or any of them;

g. Attempting, causing or assisting any of the above-described acts.

2. All claims, counterclaims, cross-claims and affirmative defenses asserted in this Action by plaintiff as against Defendants and by Defendants are hereby dismissed with prejudice and each party shall bear its own costs, including attorneys' fees.

3. This is a final and binding judgment as to the claims and defenses by plaintiff as against Defendants and by Defendants presented in this Action, which could have been in this Action, or that arise from, are connected

with, or pertain to any claim that may have been asserted in this Action as of the date hereof. This Final Judgment and Permanent Injunction is binding and enforceable against plaintiff and Defendants and their respective officers, directors, agents, representatives, successors in interest, assigns and all persons acting in concert or participation with them who receive actual notice of this Final Judgment and Permanent Injunction by personal service or otherwise.

4. This Court shall retain jurisdiction over this Action and the parties, including without limitation for motions seeking contempt for breach of this Final Judgment and Permanent Injunction; to enforce any provision of the Stipulation and Agreement of Settlement; to resolve any dispute arising out of the Stipulation and Agreement of Settlement, including without limitation the power to construe, interpret and enforce any of its provisions; and with respect to any matters in dispute not covered by the provisions of this Agreement, whether or not anticipated by the parties to this Agreement.

SO ORDERED, this 6 day of April, 2000.

s/ Jerry Buchmeyer
JUDGE JERRY BUCHMEYER

Appendix D

AGREED:

BOLLORÉ TECHNOLOGIES, S.A.

By:
Name: Paravaux
Title: General Manager

RAVI BHATIA

By: s/ Bhatia
Name: Ravi S. Bhatia
Title:

ABOX PAPERBOARD COMPANY, INC.

By: s/ Lewis Armstrong CEO
Name: Lewis Armstrong CEO
Title:

LEWIS ARMSTRONG

s/ Lewis Armstrong

Appendix D

IMPORT WAREHOUSE

By: s/ Bhatia
Name: Ravi S. Bhatia
Title: President

WILLIAM ARMSTRONG

s/ William Armstrong

DOROTHY J. ARMSTRONG

s/ Dorothy Armstrong

VICKIE ARMSTRONG

s/ Vickie L. Armstrong

APPENDIX E — ORDER OF THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT DENYING PETITION FOR REHEARING FILED JULY 19, 2007

IN THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

No. 04-10934

BOLLARE SA; NORTH ATLANTIC TRADING COMPANY; NORTH ATLANTIC OPERATING COMPANY

Plaintiffs - Appellees

v.

IMPORT WAREHOUSE INC; ET AL

Defendants

IMPORT WAREHOUSE INC; RAVI BHATIA

Defendants - Appellants

Appeal from the United States District Court for the Northern District of Texas, Dallas

ON PETITION FOR REHEARING

Before JONES, Chief Judge, and BENAVIDES and STEWART, Circuit Judges

Appendix E

PER CURIAM:

IT IS ORDERED that the petition for rehearing is DENIED.

ENTERED FOR THE COURT:

s/ [illegible]
United States Circuit Judge

No. 07-486

FILED
NOV 13 2007
OFFICE OF THE CLERK
SUPREME COURT, U.S.

IN THE

Supreme Court of the United States

IMPORT WAREHOUSE, INC. and RAVI BHATIA,

Petitioners,

v.

BOLLORÉ, S.A., NORTH ATLANTIC TRADING COMPANY, INC. and NORTH ATLANTIC OPERATING COMPANY, INC.,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

BRIEF IN OPPOSITION

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QUESTION PRESENTED

Whether the United States Court of Appeals for the Fifth Circuit erred in affirming the District Court's award to Respondents of maximum statutory damages for willful contempt of a permanent injunction and willful infringement of Respondents' two trademarks, pursuant to 15 U.S.C. § 1117(c)(2) where: (a) the statute contains no requirement that statutory damages be calculated and tethered to actual damages, let alone that statutory damages be limited to three times actual damages; (b) Petitioners prevented Respondents from ascertaining or proving actual damages by refusing to produce relevant documentary evidence; (c) not a single Court of Appeals decision conflicts with the District Court decision that the Fifth Circuit affirmed in this case; and (d) many district courts did exactly what the District Court did (and the Fifth Circuit affirmed) in this case – awarded maximum statutory damages under 15 U.S.C. § 1117(c)(2) for willful contemptuous counterfeiting of multiple marks.

STATEMENT PURSUANT TO RULE 29.6

The parent company and owner of more than 10% of the stock of Respondent Bolloré, S.A., is Financière de l'Odet which is publically traded. Respondent North Atlantic Trading Company, Inc., is wholly owned by North Atlantic Holding Corporation. Respondent North Atlantic Operating Company, Inc. is wholly owned by North Atlantic Trading Company, Inc.

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BRIEF IN OPPOSITION TO THE PETITION FOR A WRIT OF CERTIORARI

STATEMENT OF THE CASE

Petitioner Ravi Bhatia owns Petitioner Import Warehouse Inc. ("Import Warehouse"), a Dallas-based wholesale distributor for convenience stores (Mr. Bhatia and Import Warehouse are collectively "Petitioners").

Respondent Bolloré S.A. ("Bolloré") is a French corporation that owns the Zig-Zag® and Smoking Man® trademarks (collectively, the "Zig-Zag® Trademarks") used in connection with cigarette paper products. Respondent North Atlantic Trading Company, Inc. ("NATC") is the owner of Respondent North Atlantic Operating Company, Inc. ("NAOC"). NAOC is the exclusive licensee of Bolloré for importing and distributing Zig-Zag® cigarette paper products in the United States (Bolloré, NATC and NAOC are collectively "Respondents").

Petitioners engaged in a scheme in which they knowingly caused the manufacture and distribution throughout the United States of counterfeit Zig-Zag® cigarette paper products.

In 1999, Respondents filed an action in the U.S. District Court for the Northern District of Texas alleging, *inter alia*, that Petitioners violated the Lanham Act, 15 U.S.C. § 1051, *et seq.*, by importing, distributing, promoting, offering for sale and selling counterfeit cigarette paper products bearing the Zig-Zag® Trademarks. Following the District Court's entry of,

inter alia, an *ex parte* Temporary Restraining Order and Seizure and Impoundment Order, the Respondents, with the assistance of the U.S. Marshals, seized materials that infringed the Zig-Zag® Trademarks. Thereafter, Petitioners consented to a permanent injunction, entered on April 7, 2000, enjoining them from, *inter alia*:

> Selling or passing off or inducing or enabling others to sell or pass off, as and for any of Bolloré's products, or as and for products produced by Bolloré, any product not Bolloré's, or not produced, imported or distributed under the control or supervision of Bolloré and/or its U.S. Distributor, North Atlantic Operating Company, Inc. ("NAOC"), and approved for sale under Bolloré's ZIG-ZAG Trademarks, copyrighted Designs, or any of them by Bolloré; . . .
>
> Diluting and infringing the ZIG-ZAG Trademarks, or any of them, and damaging their good will; . . .
>
> Importing, shipping, delivering, distributing, returning or otherwise disposing of, in any other manner, products or inventory not authorized by Bolloré to be sold, or offered for sale, in the U.S. and which bear the ZIG-ZAG Trademarks, copyrighted Designs, or any of them, . . . [and]
>
> Attempting causing or assisting any of the above-described acts.

Appendix C to Petition at 28a-29a.

In blatant violation of the permanent injunction to which they consented, Petitioners continued to distribute counterfeit Zig-Zag® cigarette paper products. Consequently, in 2002, Respondents filed a Motion for Contempt against Petitioners.

During the contempt proceedings before the District Court, notwithstanding sworn deposition testimony from Mr. Bhatia that he always receives an invoice when Petitioners purchase Zig-Zag® products, Petitioners consistently refused to produce copies of those invoices despite numerous requests, including a subpoena, by Respondents that Petitioners do so. Respondents, in fact, requested these invoices and underlying accounting records no less than 12 times. Instead, Petitioners produced "summaries" of purchases and sales invoices which the District Court found to be "inconclusive and unpersuasive as such summaries were prepared for the purposes of this litigation and do not include actual invoices or contain other guarantees of their comprehensiveness of accuracy." Appendix C to Petition at 26a.[1] The District Court further found Respondents'

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[1] Petitioners misstate the facts of the instant case by contending that Respondents suffered only "$3,288" of lost profits. Petition at 6. Respondents suffered considerably greater lost profits. Because Petitioners violated their obligation under the Federal Rules of Civil Procedure to produce documents that Respondents subpoenaed, including invoices showing Petitioners' purchases and sales of counterfeit Zig-Zag® products, Petitioners obstructed Respondents' ability to prove the true volume of Petitioners' purchases and sales of counterfeit Zig-Zag® cigarette paper products. The $3,288 figure claimed as "lost profits" by Petitioners merely represents the amount of goods Respondents' sales representatives were lucky enough to

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witnesses to be credible in every respect, "discred[ited] the denials made by Shatia" (Appendix C to Petition at 19a (¶ 34)), and adopted each and every finding in Respondents' favor. Appendix C to Petition at 16a (¶ 18), 19a (¶ 34), 21a (¶ 43) and 25a (¶ 65).

In its Findings of Fact and Conclusions of Law dated June 27, 2003, the District Court found that Respondents proved by clear and convincing evidence that Petitioners were in contempt. Thus, the District Court held Petitioners in contempt for willfully violating the permanent injunction, and held that Petitioners willfully infringed the Zig-Zag® Trademarks by selling counterfeit Zig-Zag® cigarette products to multiple wholesale facilities located across the United States. Appendix C to Petition at 11a-32a.

Accordingly, in its Order dated July 1, 2007 and its Final Judgment entered on July 15, 2004, the District Court, in accordance with the plain language of 15 U.S.C. § 1117(c)(2), ordered that Petitioners pay $1 million in maximum statutory damages to Respondents for each of the two Zig-Zag® Trademarks, *i.e.*, the Zig-Zag® Trademark and the Smoking Man® Trademark, for a total of $2 million.

In a *per curiam* opinion dated June 5, 2007, the U.S. Court of Appeals for the Fifth Circuit affirmed the District Court's findings for "essentially the same

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happen upon in the marketplace, and trace back to Petitioners. It does not represent the total actual damages or lost profits to Respondents.

reasons stated by the District Court." Appendix A to Petition at 1a-2a.

Petitioners do not seek review of the Fifth Circuit's affirmance of the District Court's finding that Petitioners willfully violated the permanent injunction and willfully infringed the Zig-Zag® Trademarks by distributing counterfeit merchandise. Petitioners only seek review of the Fifth Circuit's affirmance of the District Court's award of $2 million of statutory damages to Respondents. Petition at 6.

REASONS FOR DENYING THE PETITION

A. This Case Does Not Merit Review Because Petitioners Have Failed To Even Allege That The Fifth Circuit's Decision Conflicts With A Single Decision Of Any Other United States Court Of Appeals On Any Matter, Let Alone The Same Important Matter.

Petitioners contend that this case merits review by this Court because the Fifth Circuit's decision affirmed the District Court's award to Respondents of $2 million in statutory damages pursuant to 15 U.S.C. § 1117(c)(2). Specifically, Petitioners allege that the District Court's finding that Petitioners were in contempt for willfully violating the District Court's prior permanent injunction and that Petitioners willfully infringed the Zig-Zag® Trademarks "Is In Conflict With All Other Courts That Have Assessed Statutory Damages Under The Lanham Act." Petition at 7.

Petitioners' use of the phrase "All Courts," rather than "All Circuit Courts," appears to have been deliberate because Petitioners have failed to cite, and Respondents have not found, a single decision from any United States Court of Appeals that conflicts with the Fifth Circuit's decision (or the District Court decision that the Fifth Circuit affirmed) in the instant case on the same matter (or on any matter).[2] Instead, the Petition

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[2] In a transparent attempt to feign the existence of conflicting case from a Circuit Court of Appeals, Petitioners disingenuously cite the Third Circuit's opinion in *Caesars World, Inc. v. Venus Lounge, Inc.*, 520 F.2d 269 (3d Cir. 1973), in support of their Petition. In *Caesars World*, the Third Circuit refused to award statutory damages under the Lanham Act where no lost profits were found; the court noted that "three times zero is zero." Petition at 9. However, Petitioners have failed to disclose that the Third Circuit's opinion in *Caesars World* was based on the Lanham Act's prior version permitting courts to award three times actual damages. Indeed, this earlier version was prior to the Act's amendment in 1996, which added the current version of Section 1117(c) authorizing awards of statutory damages as an alternative to actual damages (trebled or not). Unlike Section 1117(c), the damages provision upon which the Third Circuit's opinion was based in *Caesars World* expressly limited damages to three times actual damages, as follows:

> Section 35 also provides that "in assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount." This sentence cannot be relied on to sustain either the award of compensatory damages or the award of exemplary damages, since it assumes an evidentiary basis for the award of some actual damages. We have found none. *Three times zero is zero.*

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is based solely on Petitioners' (inaccurate) contention that the Fifth Circuit's decision conflicts with decisions issued by district courts that purportedly held that statutory damages under 15 U.S.C. § 1117(c) should not exceed three times the plaintiff's actual damages.[3] Petition at 7-9.

Accordingly, Petitioners have failed to provide any reason, let alone a compelling reason, for this Court to accept review of this case.

B. Petitioners Have Failed To Demonstrate That The Fifth Circuit's Decision Conflicts With Any District Court Cases On Any Matter.

Contrary to Petitioners' contention, 15 U.S.C. § 1117(c)(2) does not limit a district court's discretion to award statutory damages by setting a ceiling of three

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Caesars World, 520 F.2d at 273 (emphasis added). Accordingly, the Third Circuit's decision in *Caesars World* is entirely inapposite.

[3] Because this case was litigated solely in the federal courts, Petitioners cannot show, and have not argued that (i) the Fifth Circuit decided an important federal question in a way that conflicts with a decision by a state court of last resort; (ii) a state court of last resort has decided an important federal question in a way that conflicts with the decision of another state court of last resort or of a United States court of appeals; or (iii) a state court has decided an important question of federal law that has not been, but should be, settled by this Court, or has decided an important federal question in a way that conflicts with relevant decisions of this Court. Rule 10 of the Supreme Court of the United States; *see also, Watt v. Alaska*, 451 U.S. 259, 276 (1981).

times actual damages. Section 1117(c)(2) of 15 U.S.C. contains no reference whatsoever to actual damages or to trebling actual damages. Instead, 15 U.S.C. § 1117(c)(2) vests district courts with extremely broad discretion to award up to $1,000,000 per counterfeit mark "as the court considers just." 15 U.S.C. § 1117(c)(2).[4] The statute's lack of specific guidance regarding how courts should exercise their discretion is not accidental; rather, it is intentional. "'[T]he statute itself does not afford much guidance as to how the courts are to fix appropriate amounts in statutory damage cases' [citation omitted] . . . However, this limited textual guidance is purposeful; it allows district courts broad discretion in setting statutory damage awards." *Tommy Hilfiger Licensing, Inc. v. Goody & Family Clothing, Inc.*, No. 1:00-CV-1934-BBM, 2003 U.S. Dist. LEXIS 8788, at *73 (N.D. Ga. May 9, 2003) (citations omitted).

Accordingly, imposing an arbitrary ceiling on a district court's discretion under 15 U.S.C. § 1117(c)(2) to award statutory damages that it "considers just" based on three times actual damages would improperly limit the "broad discretion" afforded to district courts under 15 U.S.C. § 1117(c)(2). In fact, such a limitation could well result in awards of statutory damages that are substantially less than the awards that district courts

[4] It bears noting that 15 U.S.C. § 1117(c)(1), which sets forth the permissible statutory damages for non-willful trademark infringement, contains no reference whatsoever to actual damages or to trebling actual damages. Instead, 15 U.S.C. § 1117(c)(1) vests district courts with considerable discretion in cases of non-willful infringement to award up to $100,000 per counterfeit mark "as the court considers just." 15 U.S.C. § 1117(c)(1).

"consider[ ] just." This would be an anomalous result and wholly contrary to the stated purpose behind the statute.

That 15 U.S.C. § 1117(c)(2) contains no implied ceiling equal to three times actual damages in cases of willful infringement is further demonstrated by the fact that Congress provided for damage awards equal to three times actual damages for willful trademark infringement elsewhere in the Lanham Act – *i.e.*, in 15 U.S.C. § 1117(b). A plaintiff has the right to elect to receive either actual damages under 15 U.S.C. § 1117(a) (subject to trebling under 15 U.S.C. § 1117(b)), or, alternatively, statutory damages under 15 U.S.C. § 1117(c). *Tommy Hilfiger Licensing, Inc.*, 2003 U.S. Dist. LEXIS 8788, at *72 ("The option of statutory damages serves as an alternative to traditional awards based on actual losses under *subsections 1117(a) and 1117(b)*") (emphasis in original). To hold, as Petitioners urge, that statutory damages under 15 U.S.C. § 1117(c) are improper when they stray beyond a three times actual damages threshold would render 15 U.S.C. § 1117(c) merely redundant of 15 U.S.C. § 1117(b) and thus superfluous – a prohibited result under well-established canons of statutory interpretation. *See TRW Inc. v. Andrews*, 534 U.S. 19, 31 (2001) ("It is a 'cardinal principle of statutory construction' that 'a statute ought, upon the whole, to be so construed that, if it can be prevented, no clause, sentence, or word shall be superfluous, void, or insignificant.'" (quoting *Duncan v. Walker*, 533 U.S. 167, 174 (2001)).

The error in Petitioners' cursory view of 15 U.S.C. § 1117(c) is further demonstrated by the statute's

legislative history. Congress amended the Lanham Act in 1996 to allow a plaintiff to elect statutory damages *as an alternative to actual damages* in cases involving (as here) willful counterfeiting of trademarks in connection with the sale of goods. This was based on Congress' recognition that "a civil litigant may not be able to prove actual damages if a sophisticated, large-scale counterfeiter has hidden or destroyed information about his counterfeiting." S. Rep. No. 117, 104th Cong., 1st Sess., at § 7 (Recovery for Violation of Rights) (1995). It is often the case that "counterfeiters' records are nonexistent, inadequate or deceptively kept in order to willfully deflate the level of counterfeiting activity actually engaged in, making proving actual damages in these cases extremely difficult if not nearly impossible."[5] *Id.*; *accord, e.g., Silhouette Int'l Schmied AG v. Chahkhbazian*, No. 04 Civ. 3613, 2004 U.S. Dist. LEXIS 19787, at *4 (S.D.N.Y. Oct. 4, 2004); *Gucci Am., Inc. v. Duty Free Apparel, Ltd.*, 315 F. Supp. 2d 511, 520 (S.D.N.Y. 2004); *Sarah Lee Corp. v. Bags of New York, Inc.*, 36 F. Supp. 2d 161, 165 (S.D.N.Y. 1999); *see also*, S. Rep. No. 104-177, § 7 ("[E]nabling trademark owners to elect statutory damages is both necessary and appropriate in light of the deception routinely practiced by counterfeiters."). Thus, the amendment to the Lanham Act "adds teeth to existing statutes and provides

[5] As noted *supra*, p. 3, Petitioners had resisted all requests for discovery pertaining to damages and instead provided Respondents with a useless, created for litigation, summary chart. By doing so, Petitioners treaded on unsettled ground at their own peril. *See Louis Vuitton S.A. v. Spencer Handbags Corp.*, 765 F.2d 966, 972-73 (2d Cir. 1985) (noting that counterfeiter who keeps poor records "must bear the burden of uncertainty" in determining damages award).

stronger civil remedies," 141 Cong. Rec. E1994-01 (daily ed. Oct. 19, 1995) (statement of Rep. Goodlatte), and "expressly confers upon the district judges wide discretion in determining a just amount of recovery for trademark infringement." *Rolex Watch USA, Inc. v. Meece*, 158 F.3d 816, 824 (5th Cir. 1998), *reh'g denied*, 1998 U.S. App. LEXIS 31333 (5th Cir. Nov. 19, 1998) (quoting *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA*, 112 F.3d 1296, 1304 (5th Cir. 1997)). "The purpose of section 1117 is to take all the economic incentive out of trademark infringement." *Meece*, 158 F.3d at 824 (quoting *Intel Corp. v. Terabyte Int'l*, 6 F.3d 614, 621 (9th Cir. 1993)).

Accordingly, imposing an arbitrary ceiling upon a district court's discretion to award the quantum of statutory damages it "considers just" based on three times actual proven damages would severely frustrate Congress' express purpose in enacting 15 U.S.C. § 1117(c) to untether statutory damages from proof of actual damages. *See Lorillard Tobacco Co. v. Jamelis Grocery, Inc.*, 378 F. Supp. 2d 448, 458 (S.D.N.Y. 2005) (noting that actual damages figure is of no consequence under statutory damages framework because "[a] counterfeiter must fear more than just having to turn over his ill gotten gains to the rightful owners"). This is even more crucial in cases like this one, where Petitioners' own actions frustrated Respondents' ability to ascertain and prove the amount of actual damages.

In light of Congress' clearly expressed intent in amending the Lanham Act, it should come as no surprise that, contrary to Petitioners' contention that the Fifth Circuit's decision "Is In Conflict With All Other Courts

That Have Assessed Statutory Damages Under The Lanham Act," not a single district court has arbitrarily limited its statutory damages award under 15 U.S.C. § 1117(c) to three times actual damages in the way that Petitioners contend is required. In fact, many district courts have awarded the maximum statutory damages under 15 U.S.C. § 1117(c) without making any comparison to Petitioners' proposed ceiling of three times actual damages. For example, in *Philip Morris USA Inc. v. Marlboro Express*, No. CV-03-1161 (CPS), 2005 U.S. Dist. LEXIS 40359, at *27-30 (E.D.N.Y. Aug. 26, 2005), *Philip Morris USA Inc. v. Banh*, No. CV-03-4043 (GAF), 2005 U.S. Dist. LEXIS 43113, at *22 (C.D. Cal. Jan. 14, 2005) and *Philip Morris USA Inc. v. Sheng Chen Lin*, No. CV-03-08923 (CAS), 2004 U.S. Dist. LEXIS 29903, at *21 (C.D.Cal. Oct. 25, 2004), the courts awarded the maximum statutory penalty under 15 U.S.C. § 1117(c)(2) of $1 million per mark for willful infringement and counterfeiting of four marks, resulting in total awards of $4 million. In *Philip Morris USA Inc. v. Castworld Prods.*, 219 F.R.D. 494, 501-02 (C.D. Cal. 2003), and *Gucci*, 315 F. Supp. 2d at 511, the courts awarded the maximum statutory penalty under 15 U.S.C. § 1117(c)(2) of $1 million per mark for willful infringement and counterfeiting of two marks, resulting in a total awards of $2 million.[6]

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[6] Petitioners contend that *Gucci* supports their contention because the statutory damages that the court awarded were roughly three times the actual damages proven. Petition at 8. However, the court in *Gucci* made no such comparison. The fact that the maximum amount of statutory damages was roughly three times actual damages was pure coincidence.

Moreover, none of the district court decisions that Petitioners cite support their contention that district courts are constrained to limit their statutory damages awards under 15 U.S.C. § 1117(c)(2) to three times actual damages. Petition at 7-9. Rather, those decisions stand for the unremarkable principle that, in exercising their discretion in connection with determining statutory damages under 15 U.S.C. § 1117(c)(2), some courts have determined that three times actual damages is sufficient to compensate the plaintiffs. That does not mean, however, that every single district court is required to exercise its broad discretion in such a manner. Certainly nothing in 15 U.S.C. § 1117(c) or the cases cited by Petitioners mandates it. And, as demonstrated in the four *Philip Morris USA Inc.* cases and the *Gucci* case described above, many district courts have felt no such compulsion, resulting in maximum statutory damages awards under 15 U.S.C. § 1117(c)(2) equal to $1 million per infringed mark without reference to actual damages.

Moreover, the fact that some of the district courts in the cases cited by Petitioners determined statutory damages awards under 15 U.S.C. § 1117(c)(2) by roughly trebling actual damages stands for another unremarkable principle – that actual damages is one of several factors that courts can consider in determining the appropriate quantum of statutory damages.[7]

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[7] Some of the cases cited in the Petition do not even support that unremarkable principle. For example, in *Choice Hotels Int'l, Inc. v. Pennave Associates*, 159 F. Supp. 2d 780, 786 (E.D. Pa. Feb. 9, 2001), *aff'd*, 2002 U.S. App. LEXIS 17891 (3d Cir. Aug. 28, 2002), the court's award of $100,000 was not based on 15 U.S.C. § 1117(c), but rather consisted of damages awarded

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Marlboro Express, 2005 U.S. Dist. LEXIS 40359, at *27-30. However, that is only one of several factors that district courts can consider in determining statutory damages. The other relevant factors include the defendant's willfulness, the size of the defendant's counterfeiting operation, the deterrent effect on others beside the defendant, the defendant's efforts to mislead and conceal, and the potential for discouraging the defendant. *Id.*[8]

In the instant case, the District Court was wholly justified in awarding maximum statutory damages under 15 U.S.C. § 1117(c)(2) based on these other relevant factors. The District Court found that Petitioners' infringement was willful. Appendix B to Petition at 8a. Moreover, the District Court found that Petitioners willfully violated the permanent injunction prohibiting any further infringement and accordingly were in willful contempt. Appendix B to Petition at 8a. Consequently, the District Court's award was justified in light of the factors relating to Petitioners' willfulness, and to discourage any future infringing behavior. Moreover, the

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under 15 U.S.C. § 1117(a) ("JUDGMENT IS ENTERED, pursuant to paragraph § 1117(a), in the amount of $100,000 in favor of Plaintiff against Defendant Miller . . ."). *Id.*

[8] This list of factors is derived from case law analyzing an analogous damages provision under the federal Copyright Act, 17 U.S.C. § 504(c), which courts have frequently utilized for guidance in formulating statutory damages awards under 15 U.S.C. § 1117(c). *See, e.g., Marlboro Express*, 2005 U.S. Dist. LEXIS 40359, at *27-30; *Sheng Chen Lin*, 2004 U.S. Dist. LEXIS 29903, at *19.

District Court found that, instead of producing the requested documentary evidence regarding their purchases and sales of Zig-Zag® products, Petitioners produced "summaries" of purchases and sales invoices which the District Court found to be "inconclusive and unpersuasive as such summaries were prepared for the purposes of this litigation and do not include actual invoices or contain other guarantees of their comprehensiveness of accuracy." Appendix C to Petition at 26a. Consequently, the District Court's award was justified in light of the factor relating to the defendants' efforts to mislead and conceal.[9] Finally, as evidenced by the myriad of tobacco-related lawsuits cited above, the distribution and sale of counterfeit cigarettes and related papers products is a national and international epidemic, through which counterfeiters profit at the expense of not only trademark holders, but the public at large. *See Lorillard Tobacco Co.*, 378 F. Supp. 2d at 458 (observing that counterfeit cigarettes have become an increasingly troublesome public problem for which there is a strong need for deterrence). Consequently, the District Court's award was also justified in light of the deterrent effect on others beside the defendant.

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[9] In contrast to the instant case, in which the District Court found that Petitioners were less than forthcoming with regard to producing relevant evidence, in *Tommy Hilfiger*, 2003 U.S. Dist. LEXIS 8788, at *71-76, the court was able to calculate the defendant's unlawful lost profits which the court "derived . . . from [defendant's] reliable sales records and information." *Id.* at *74-75. In that case, the court, in its discretion, awarded statutory damages in the total amount of $2.1 million, which was roughly three times the amount of the defendant's unlawful profits. In the instant case, the District Court could make no similar calculation of unlawful profits because Petitioners did not provide "reliable sales records and information."

Aside from justification of the damages resulting from Petitioners' willful counterfeiting and deterrent effect, the District Court's award of statutory damages is a result of the overall value of Respondents' Trademarks. The District Court was well aware of the 100-year history and enormous value of Respondents' Zig-Zag® Trademarks; declarations were provided both in the underlying proceeding and in the contempt proceedings regarding these facts.

For more than a century, Respondents have used the Zig-Zag® Trademarks in connection with cigarette paper products in the United States. Respondents have developed enormous goodwill in the Zig-Zag® Trademarks and a reputation for high quality. Over the past seven years, millions of dollars worth of cigarette paper products carrying the Zig-Zag® Trademarks have been sold in the United States. Significantly, Respondents' Zig-Zag® Trademarks are all incontestable and are valued at approximately $150 million. It is clear that Petitioners' counterfeiting scheme damaged the goodwill and reputation that Respondents spent nearly a century generating. In doing so, Petitioners simultaneously damaged the value of the Zig-Zag® Trademarks.

However, as discussed above, Petitioners' refusal to provide accurate and reliable sales information makes it difficult for Respondents to accurately estimate the precise diminution in value of the Zig-Zag® Trademarks as a result of the Petitioners' counterfeiting activities. Petitioners' counterfeit sales represented a diminution in the value of Respondents' Zig-Zag® Trademarks, and considering a mere 1% net loss, would result in damages

of not less than $1.5 million for the damage to the goodwill alone. Accordingly, the District Court's award of the statutory maximum of $1 million per Trademark was wholly reasonable based on all of the factors, with diminution to goodwill being only one of those factors.

CONCLUSION

For the reasons set forth above, this Court should deny the Petition for a Writ of Certiorari.

Respectfully submitted,

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